

**DEPARTMENT OF FINANCE
BUREAU OF REVENUE &
CUSTOMER SERVICE
REVENUE COLLECTION REVIEW
NOVEMBER 2000**

INTRODUCTION AND SCOPE

The County Auditor's Office routinely reviews the operations and related internal controls of the various departments of County government. Accordingly, we have initiated a review of the internal controls at the Department of Finance, and this initial review examines the internal controls in place over revenues in the Bureau of Revenue and Customer Service within that department. We will be examining internal controls in other areas of the Department of Finance in future reviews.

The Department of Finance, Bureau of Revenue and Customer Service, Revenue Collection, is responsible for collecting and depositing the majority of the County's receipts, including real property taxes, personal property taxes, water and sewer use charges, landfill use charges, hotel and mobile home taxes, and parking violation fines, among others. The approved operating budget for fiscal year 2000 anticipated receiving revenue of \$439.5 million, most of which was collected through this Bureau. The scope of our examination was principally concerned with revenues that are received directly over the counter in the Department of Finance or through the mail and then passed on to be processed through the same department, which has a staff of three cashiers and a supervisor/head cashier, in order to determine whether adequate internal controls are in place and operating as intended in this area. Our review included tests of total daily receipts handled by each cashier and the related deposits, tests of individual transactions, a surprise cash count, review of the mail handling process, and a review of employee expense claims and travel loans. We also looked at the policies and procedures in place to carry out these tasks. We have concluded that, overall, adequate controls are in place and operating as intended to protect the assets of the County. However, we noted several areas in which changes would result in overall improved operations and internal controls and have made recommendations for these areas accordingly.

CASH RECEIPT PROCESS

Cash (consisting of coin, currency, money orders, certified checks, cashier's checks, and personal checks) is received over the counter for nearly every type of revenue the County collects. All revenue other than real and personal property taxes, parking violations, water and sewer bills, and solid waste invoices, is entered in the County's financial system through the use of prenumbered cash receipts. All other revenue, as mentioned above, is entered by referring to relevant information on preprinted tax bills, water bills, parking violations, etc. Each source of revenue has been assigned a unique account number. There are three cashiers and a supervisor who is responsible for, among other tasks, reviewing and approving each cashier's daily settlement sheet and preparing the bank deposit and related batches for transmittal to and input by the Information Systems Services Office (ISSO). On occasion, the supervisor will also receive revenue over the counter and perform the tasks of a regular cashier in addition to her other responsibilities. We tested all revenue received over the counter for the month of January 2000. This included:

- Recomputing all settlement sheets to verify accuracy and completeness
- Tracing all amounts received to the related deposit slip and bank statement
- Agreeing settlement sheet totals to cash register audit tape totals
- Comparing composition of receipts (cash, check or charge) per audit tape to composition of deposits
- Determining timeliness of deposits
- Analyzing voids through the cash register audit tape to determine the reason therefor

No exceptions were found as a result of carrying out the above audit steps and we have concluded that the related internal controls in place are satisfactory and operating as intended, however, two other issues came to our attention as a result of this review which need stronger internal controls.

There is a lack of segregation of duties in the cashier area in that the supervisor/head cashier of this area has her own cash drawer and does from time to time operate a cash register, approve her own settlement sheet, and make up the related deposit and batch for transmittal to ISSO. Although we reviewed this individual's cash register receipts for several different days and found no exceptions, this is a clear violation of strong internal control policy and should not be occurring. The overlapping of duties allows a potential misappropriation of funds situation to exist. This supervisor should not be involved in any type of cashiering function for which she must subsequently approve

and make up the bank deposit and cash receipt batch for transmittal to ISSO. We therefore recommend that:

1. **The Head Cashier not be involved in any type of processing of individual transactions, including mail receipts, for which she must subsequently approve and make up the bank deposit.**

Administration's Response:

The Head Cashier must act as a cashier during busy times and staff vacations to prevent long lines and lengthy waits for customers. Finance recognizes that this is an internal control weakness and has implemented a new control. The Head Cashier and a Cashier will close out and verify the balances in each other's drawer. This procedure will significantly improve control.

Voids of completed transactions are seldom explained in the designated area of the settlement sheet and then approved by the supervisor. While it was possible to determine the reason for voids by reviewing the cash register audit tape, Department of Finance procedures require that "any voids must be processed by the supervisor" and the segregation of duties between the cashiers receiving the money and the person authorized to void transactions is a good internal control procedure. All voids on the audit tape should be explained on the settlement sheet for that day. This procedure will also tend to make the cashiers more careful when entering transactions in the cash register knowing they will have to explain in writing any errors they make which must then be voided out and approved by their supervisor. We therefore recommend that:

2. **All voids of completed transactions be explained in the designated area of the settlement sheet for the same date as the void occurs and then initialed by the supervisor to indicate review and approval.**

Administration's Response:

The Administration concurs with this recommendation. Effective immediately all cashiers are required to write an explanation in the designated area of the daily settlement sheet prior to the supervisor's approval. All voids on the audit tape will be explained and tied to the daily settlement sheet.

Several different samples of cash receipts were obtained from the Advantage Financial System (AFIN) and traced to the original cash receipts and supporting documentation in the

Department of Finance. Of several hundred items tested, only one exception was noted. This involved a receipt in the amount of \$2.25 that was credited to an incorrect account number, was subsequently corrected with a journal entry, and is not considered material. We also selected over 100 original cash receipts covering the period July 1999 to February 2000 and tested them for accuracy of account number and entry in AFIN as well as timeliness of deposit. No exceptions were noted. We did find, however, nine cash receipts that were not part of our sample that had been assigned incorrect revenue account numbers either by the preparer or keypunch. These were brought to the attention of the area supervisor and corrected with journal entries. Considering the large number of cash receipts reviewed, these errors are not considered material.

All lien certificate revenue posted to AFIN for the month of April 2000 was traced to lien certificate revenue on the cashier settlement sheets to determine whether all lien certificate receipts, including mail receipts, were processed through the registers and accounted for on AFIN. No exceptions were noted. Manual water bills and credit card fees were also similarly reviewed and here, too, no exceptions were noted.

All deposit slips obtained from Finance for the month of January 2000 were traced to the bank statement to verify that deposits were made on a timely basis and properly credited to the account. No exceptions were noted. In addition, a sample of bank statement credits was traced to the County's cash report to verify that they were accurately and completely entered on AFIN. No exceptions were noted, however, during this process it was noted that some agencies are not depositing receipts as they are received each day. Several instances were noted where deposits were made one week or more after receipt (Landfill, Animal Control, Recreation and Parks, and Police) with the longest time held being almost one month (Florence Bain Senior Center). Holding funds longer than necessary increases susceptibility to loss or theft and shortens the amount of time that those funds are available for County use. We therefore recommend that:

3. **The Department of Finance once again remind all agencies of the need to deposit funds by the next business day after receipt.**

Administration's Response:

The Administration concurs and the Department of Finance has sent a letter reminding all agencies of the requirements to deposit cash and checks in a timely manner.

As the result of a prior audit recommendation, mail is now opened by a Water & Sewer employee unless it is marked “personal or confidential.” All checks received in the mail and made payable to the Director of Finance are restrictively endorsed and directed to the cashiers for further processing. This segregation of duties appears to be working well.

As part of this audit, a surprise cash count was conducted on 1/21/00. All funds were accounted for in each of the four cash register drawers as well as the total petty cash amount of \$10,300.00. No exceptions were noted.

EMPLOYEE EXPENSE CLAIMS

A random sample was selected of 50 employee expense claims to determine whether all required approvals were obtained, all supporting documentation was attached, only claims under \$50 received cash, claims were submitted and processed in a timely manner, and claims were entered in AFIN. No exceptions were noted.

EMPLOYEE TRAVEL LOANS

A random sample was selected of 26 employee travel loans to determine whether all travel was preapproved, cash was received within 5 days of travel for loans of \$250 or less, checks were received within no less than 10 days of travel date, settlement was within 30 days of return to work date, all required receipts were attached, and amounts were properly entered on AFIN. All requirements were met with one exception: 11 of the 26 travel loan settlements reviewed were settled more than 30 days after the return to work date in violation of County policies and procedures. Number of days over 30 ranged from 1 to 56 with an average of 19 days late. While travel loans remain open, unspent County funds are usually being held and County travel loan records cannot be updated and closed. We therefore recommend that:

4. **The Department of Finance once again remind agencies of the County policy that travel loan settlements must be made within 30 days of the return to work date.**

Administration's Response:

The Department of Finance will more rigorously enforce the Travel Loan Settlement procedure to address this issue. All outstanding loans will be reviewed monthly by the Accounting Control Division Chief. A memorandum will be sent to all employees with loans not settled within the 30 day limit informing them their loan must be settled within 5 days. If the loan is still not settled after 5 days, another memo will be sent to the employee with notification that the loan will be deducted from their next paycheck (as provided for in the travel loan form).

POLICIES AND PROCEDURES

While reviewing the written policies and procedures followed to carry out the various revenue collection tasks, we noticed that the *Cash Receipt Procedure #2.2002* refers to "LGFS" which was replaced in 1998 by "AFIN" and the *Procedure for Daily Deposit Verification* had several handwritten changes made to it. We believe it is important that written policies and procedures be up-to-date and accurate and therefore recommend that:

5. **The above procedures be updated to reflect current and accurate information.**

Administration's Response:

Finance has designated procedure updates and rewrites as the focus of this year's Mutually Defined Objectives for all staff. The update of Cash Receipt Procedure #2.2002 had been assigned to the Head Cashier.

6. **All other written policies and procedures be likewise reviewed and updated, if necessary.**

Administration's Response:

Finance has designated procedure updates and rewrites as the focus of this year's Mutually Defined Objectives for all staff. The update of Cash Receipt Procedure #2.2002 had been assigned to the Head Cashier.

REAL ESTATE ASSESSMENT INCREASES AND DECREASES

We also reviewed the real estate assessment increase and decrease process which originates at the State Department of Assessments and Taxation (SDAT) and found that it is completely independent of all cashiering functions. No tasks related to this process are performed by the cashiers but are carried out within the Division of Taxpayer Services in the Bureau of Revenue.

The process requires a series of checks and balances to ensure accuracy. Because we feel confident that it is independent of the cashiering function, we did not do any specific testing but plan to do so in a future audit.

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